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Special Issue on Minority Business

FOCUS

The monthly magazine of the Joint Center for Political Studies®

Minority Business Performance: A Comparison Among Ethnic Groups

While Black Entrepreneurs Lag Behind Hispanics and Asians in Some Areas, They Lead in the Emerging Fields of Finance, Insurance, and Real Estate

Black Political Empowerment and Economic Advancement

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Minorities and Privatization: Economic Mobility at Risk

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POLITICAL TRENDLETTER®

Perspective

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JCPS Expands Research on Economic Policy

Since its founding in 1970, the Joint Center for Political Studies has been especially attentive to issues relating to political participation. And over the last two decades, we have researched, interpreted, and in some cases participated in the impressive political advances made by black Americans.

On the economic front, however, gains by blacks have not been nearly as impressive. In fact, by some measures, the economic condition of the black community is deteriorating. Inadequate education, joblessness, drug abuse, crime, family disintegration, homelessness, and deep-seated urban poverty are all rooted in the society's continuing failure to assure economic opportunities for all its citizens.

The widening gap in economic well-being between blacks and whites is among the more glaring evidence of society's unfulfilled commitment to equal opportunity. To narrow that gap and at the same time help rekindle American competitiveness in the international marketplace, we must have a better educated and skilled black work force, growth in black entrepreneurship, and a more prosperous and stable black consumer population.

Aware of the dangers that the devastating economic conditions mentioned above pose to blacks and the society as a whole, the Joint Center plans to significantly expand its research on economic policies and issues. We will conduct more research on the economic well-being of black Americans, paying special attention to issues such as equal opportunity in education and employment and the impact of technological changes on the world of work. Furthermore, we will pay more attention to the fiscal and monetary policies of the government as well as to trade, productivity, and competitiveness in the international marketplace. Our goal is to help black Americans achieve greater economic advances by increasing the level of black participation in formulating and implementing economic policies.

Our constituents and friends will hear more about these plans in the near future. Meanwhile, numerous efforts are already underway to bring national attention to the economic status of the black population. The articles in this special minority business issue of *Focus* reflect our concern. Economist Timothy Bates, a visiting scholar at JCPS, presents new data which show that black businesses are more successful in cities governed by black mayors. Economist Joyce Allen, our senior research associate, illustrates how much further black businesses need to go even to reach the level of viability achieved by other minority groups. And a review of the Joint Center's forthcoming book, *Minorities and Privatization,* reveals how blacks are affected when private firms are contracted to provide municipal services.

The twin objectives of political and economic empowerment will be driving forces in the lives of black Americans for years to come, as indeed they are in the life of the nation as a whole. President Franklin Roosevelt summed up our national aspiration in 1941 in these words:

"...There is nothing mysterious about the foundations of a healthy and strong democracy. The basic things expected by our people of their political and economic systems are simple. They are: equality of opportunity for youth and for others; jobs for those who can work; security for those who need it; the ending of special privilege for the few; the preservation of civil liberties for all...in a wider and constantly rising standard of living."

This challenge is every bit as relevant and urgent today as it was 48 years ago. ■

Eddie N. Williams

PRESIDENT

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Minority Business Performance: A Comparison Among Ethnic Groups

While Black Entrepreneurs Lag Behind Hispanics and Asians in Some Areas, They Lead in the Emerging Fields of Finance, Insurance, and Real Estate

by Dr. Joyce Allen

This article is based on a forthcoming Joint Center study by Dr. Allen.

As Asians and Hispanics make economic inroads into some black communities, for example through buying mom-and-pop food stores and cleaning establishments, observers are asking why it is that black entrepreneurs seem to be outstripped by other minorities in the business field. Nationwide, blacks are less likely than members of other minority groups to own and operate a business. And since business participation is essential for economic growth in minority communities, the low rate of entrepreneurial development by blacks is a matter of real concern.

The data on minority businesses show that the relative position of black firms does vary, however, when measured against such indicators as total sales, levels of employment, type of business, and structural makeup. There are some areas where black firms actually outperform other minority-owned firms. But the overall picture shows that Hispanic and Asian entrepreneurs are more successful than blacks, a success partly attributable to the fact that other minority groups have greater access to financial resources and to such "social capital" as advanced education and entrepreneurial role models.

Black Firms Lag in Sales and Receipts

Even though black businesses are relatively few nationwide, they outnumber firms among other non-white minorities, according to the U.S. Census Bureau's Survey of Minority-Owned Business Enterprises for 1982. (This survey, conducted every five years, contains information on businesses owned by blacks, Hispanics, Asians, Pacific Islanders, and other minority groups. Data from the 1982 survey are the latest available.) In fact, blacks owned 339,239 or approximately 40 percent of all minority-owned businesses in 1982; Hispanics owned 248,141 (29 percent); and Asians owned 173,397 (21 percent).

Dr. Allen is an economist and a senior research associate at the Joint Center.

Nevertheless, comparative data on business revenues reveal that Hispanic firms surpassed black firms in total sales and receipts, as did Asian firms. In 1982, black-owned firms generated $12.4 billion in receipts, versus $15 billion for Hispanic-owned firms and $14.5 billion for Asian-owned firms. This means that the black business community as a whole accounted for 27 cents of every dollar in minority-owned business receipts that year, compared with 33 cents for the Hispanic group, 32 cents for the Asian group, and 8 cents for the remaining groups.

Since black firms were more numerous than firms owned by the other two groups, these lower figures for overall receipts mean that the averages per individual firm were startlingly low among black entrepreneurs. With average annual sales and receipts of $36,681, black firms showed the poorest performance among all minority-owned firms. Asian-owned firms performed the best, with average sales and receipts of $83,417, while Hispanic firms averaged $60,354. These levels are all low, however, when compared to the average of $473,500 for all U.S. businesses.

Although Asian-owned businesses, as a group, have much higher average sales and receipts than black-owned businesses, some Asian subgroups fall far below the Asian average. Vietnamese businesses, for example, take in only slightly greater receipts than black businesses do. And businesses owned by two Pacific Islander ethnic groups, Filipinos and Hawaiians, have average receipts somewhat lower than those owned by blacks. A similar pattern is evident among Hispanic-owned businesses: those owned by Latin Americans (of Central or South American descent) generated average receipts only slightly higher than those owned by blacks.

Performance by Type of Business and Industry Mix

The preceding figures, while useful in making very broad comparisons, can be somewhat misleading since they fail to distinguish between diverse types of firms. In-

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Minority Business Performance

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deed, for black owners, they obscure important differences between large and small businesses.

To obtain a clearer picture, it is useful to compare by form of organization—individual proprietorships, partnerships, and corporations. Individual proprietorships, which tend to be smaller businesses than partnerships or corporations, are the most numerous form of business in the United States. Corporations, however, are generally considered to have a greater long-term potential for expanded employment and growth in revenues than the other two types of firms.

This comparison reveals that the gap in receipts between those firms owned by blacks and those owned by other minority groups was narrower among corporations than among individual proprietorships and partnerships. Specifically, average sales and receipts of black corporations were 78.7 percent and 84.4 percent, respectively, of the sales and receipts of Hispanic and Asian corporations, and actually exceeded the performance of Puerto Rican, Latin American, and Cuban owned corporations. By contrast, among individual proprietorships, black receipts were only 56.5 percent of Hispanic receipts and 40.2 percent of Asian receipts. (Sales data are not available in the Survey of Minority-Owned Business Enterprises on Pacific Islanders or specific Asian subgroups such as Koreans, Vietnamese, and Chinese.)

Another way to refine the comparisons is to evaluate the type of industries where minority businesses prevail. Minority firms are disproportionately concentrated in industries with limited potential for growth. Selected services, such as beauty shops, barber shops, and photographic studios, and retail trade enterprises, like food and apparel stores and service stations, are two categories generally considered slow growth areas. While the majority (57 percent) of all businesses in the United States fall into these two categories, minority-owned firms are even more highly concentrated in them. Taken together, selected services and retail trade accounted for 68 percent of black businesses, 63 percent of Hispanic businesses, and 73 percent of Asian businesses in 1982.

While the survey shows blacks trailing Hispanics and Asians in most fields, it also shows blacks forging ahead in others. In the emerging industry of finance, insurance, and real estate, black entrepreneurs showed higher average sales and receipts than other minority owners. Average receipts in this industry were $50,451 for black owners, $47,652 for Pacific Islanders, $45,558 for Asians, and $37,457 for Hispanics.

A Source of Employment

Although the minority business sector is relatively small, it is an important source of employment for minority workers, often providing career opportunities unavailable elsewhere. Data from the Census Bureau's Characteristics of Business Owners survey indicate that the work force of minority-owned businesses, particularly black-owned businesses, is made up primarily of minority employees. About 60 percent of black employers report that their work force is 75 percent to 100 percent minority. These firms tend to employ minority workers for a variety of reasons, including the fact that minority enterprises are often located in central cities and serve ethnic communities.

Nevertheless, black-owned firms employed fewer workers overall than firms owned by individuals from other minority groups. In 1982, black businesses had an aggregate work force of 165,765 employees. By comparison, Hispanic-owned firms employed 189,636 persons while Asian-owned firms employed 186,355. The annual payroll of black-owned firms totalled $1.5 billion, while payroll figures for Hispanic and Asian owned firms totalled $1.7 billion each in 1982.

Black-owned firms with paid employees averaged 4.3 employees while Hispanic-owned firms and Asian-owned firms averaged 4.8 employees. There are exceptions for certain ethnic subgroups, however. Black firms employed at least one more person on average than did firms owned by Puerto Ricans, Latin Americans, Asian Indians, Koreans, Vietnamese, and Filipinos.

Factors Contributing to Poor Black Performance

There are several explanations for differences in performance among the various minority groups. One reason for the low ranking of black-owned businesses is that many of them are part-time or casual operations, owned and managed by individuals who are employed elsewhere full-time.

Furthermore, some researchers at the federal Minority Business Development Agency (MBDA) have pointed to the lower level of social capital available to black entrepreneurs than to Hispanic or Asian business owners as a contributing factor in their poorer performance. For example, blacks are less likely to have entrepreneurial parents or other close relatives who could pass along their business experience or serve as role models. And although blacks' educational level compares well with that of their Hispanic counterparts, it compares poorly with the educational level of Asian entrepreneurs.

The financial capital available to black entrepreneurs is also relatively low. They are not as likely as Asian or Hispanic owners to obtain investment capital from relatives and friends. Moreover, studies of financial capital and minority business by researchers such as Timothy Bates, economics professor at the University of Vermont, have shown a continuing pattern of redlining against blacks by commercial lending and investment institutions.

To move ahead in business development, black entrepreneurs need to continue entering emerging fields and develop larger-scale businesses. Discriminatory barriers to financial capital and higher education must be removed. Moreover, the black community must devise ways to expand the educational opportunities for current and future entrepreneurs, giving them the same advantages other minority entrepreneurs commonly enjoy. ■

May 1989

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POLITICAL TRENDLETTER®

Inside This Issue

- Maryland Congressman Kweisi Mfume tries again to give the Minority Business Development Agency congressional authority and moves to amend the savings and loan bail-out bill.
- Civil rights and minority business leaders form a task force to respond to the Supreme Court's *Croson* decision striking minority business set-asides.
- The South African regime is failing in its attempt to sell a new image of its repressive system to the international community.
- President Bush is looking for a way to appoint Arthur Fletcher to head the Civil Rights Commission as Congress considers reauthorizing the agency.

Kweisi Mfume's Business Agenda for the 101st Congress

In April, Democratic representative KWEISI MFUME from Baltimore reintroduced the Minority Business Development Act, H.R.1769, which would raise the status of the Minority Business Development Agency (MBDA) within the Commerce Department and for the first time give Congress a measure of control over MBDA's operations. Currently, the MBDA provides management, marketing, and technical assistance to about 9,000 minority entrepreneurs a year through 100 centers located around the country. Established in 1969 as the Office of Minority Business Enterprise by an executive order signed by President RICHARD M. NIXON, the MBDA would be restructured by Mfume's bill into a new entity headed by an assistant secretary holding subcabinet rank (the MBDA is presently headed by a "director").

The push to give the agency congressional authority was started by former congressman PARREN J. MITCHELL, Mfume's predecessor, who served as Baltimore's representative from 1971 to 1987. Mitchell, who chaired the House Small Business Committee from 1981 to 1987, sponsored legislation similar to H.R.1769 in 1980 and again in 1983. However, neither measure was adopted by Congress. It was Mitchell's objective, and now Mfume's, to make the MBDA less vulnerable to White House efforts to weaken or even abolish the agency. In 1987, for example, President RONALD REAGAN proposed to merge the MBDA into the minority business set-aside program administered by the Small Business Administration. Reagan could have executed the merger with the stroke of a pen; since the MBDA had been established by executive order and its very existence is subject to the pleasure of the president. But the proposed merger, which Reagan tried to justify as a budget savings measure, was not actually attempted, largely because of strong protests from the minority business community and from a bipartisan group of senators and congressmen.

The House passed H.R.1769 by voice vote during the last Congress on October 12, 1988. But the Senate companion bill, S.1848, sponsored by senators JOHN KERRY (D-Mass.) and PETE WILSON (R-Calif.), did not reach the Senate floor. Wilson plans to introduce a similar bill during this Congress.

Contrary to Reagan administration policy, the Bush administration, through Commerce secretary ROBERT A. MOSBACHER, supports the concept of upgrading the MBDA within the Commerce Department.

In other legislative action on minority business, Rep. ESTEBAN TORRES (D-Calif.) joined Rep. Mfume in offering a package of four amendments to the savings and loan bail-out bill. The amendments are designed to strengthen and protect minority-controlled financial institutions. Each of the amendments was incorporated into the House Banking, Finance and Urban Affairs Committee version of the Financial Institution Reform, Recovery and Enforcement Act of 1989 (H.R.1278), a measure to respond to the continuing savings and

loan crisis. The House is still considering H.R.1278 but the Senate passed its bail-out bill (S.774) on April 19. Summaries of the four amendments, adopted by the House Banking committee in April, follow:

- **Preservation of Minority Financial Institutions.** This amendment would help keep minority controlled savings and loan institutions solvent by improving training, technical assistance, and education programs available to them through the Federal Deposit Insurance Corporation (FDIC). Moreover, the FDIC would be required to give minorities priority in bidding for the ownership of insolvent minority institutions and of minority institutions involved in mergers and acquisitions.
- **Improved Minority Bank Deposit Program.** This amendment would expand the provisions of Executive Order 11626, which requires that the Treasury secretary work with other agencies to identify ways of using minority financial institutions as depositories of federal funds. This amendment would apply to low-income credit unions as well as financial institutions controlled by minorities and women.
- **Interstate Mergers of Minority Banks.** This amendment would allow the FDIC to facilitate interstate bank mergers of institutions with assets *under* $500 million (instead of restricting assistance to those *over* $500 million, as the law presently requires). This would expand opportunities for minority banks threatened with insolvency to merge with other minority banks, even if they are out of state. The alternative for many such institutions has been either to fold or to be taken over by nonminority banks.
- **Minority Outreach.** As the Resolution Trust Corporation (which is to be established by the bail-out bill) addresses the insolvency and merger problems of marginal S & Ls, billions of dollars in federal contracts will be awarded to private accounting and law firms to support the effort. This amendment would ensure that minority firms receive a share of those contracts.

A United Response to Croson

Civil rights and minority business advocates have agreed to establish a task force to develop a common strategy for documenting and responding to the harmful effects of the U.S. Supreme Court's recent decision in *City of Richmond v. J.A. Croson Co.*, which overturned Richmond's minority business set-aside program. (See *Focus TrendLetter*, January-February 1989.) Lawyers, policymakers, entrepreneurs, and civil rights leaders have been working feverishly to assess the decision's implications, not only for state and local set-aside programs, but also for race-conscious affirmative action programs in general, both public and private.

Proponents of minority set-aside programs point out that the Court's stringent new standards have already begun to place a heavy burden on states and localities to justify the use of their programs as effective remedies for proven discrimination in contracting. **The *Croson* decision, these advocates assert, has already harmed minority businesses, since the courts as well as state and local governments across the country have begun using it to dismantle their set-aside programs. At least 18 programs have been abandoned since the decision was handed down in February.**

Many civil rights advocates, including JULIUS CHAMBERS, counsel-general of the NAACP Legal Defense and Education Fund, fear that the *Croson* case may become a judicial precedent for overturning all forms of affirmative action and equal opportunity programs, including those outside the business arena in such areas as education, employment, voting, and housing. Given the enormous potential for change in policy and practice, civil rights and minority business organizations are formulating a strategy based on thorough study of the new ruling.

Meanwhile, on Capitol Hill, Rep. JOHN CONYERS (D-Mich.) will soon conduct hearings on the *Croson* decision through the House Government Operations Committee, which he chairs. These hearings are expected to result in the introduction of legislation aimed at countering the damaging effects of the Court ruling. Furthermore, minority business groups, such as the Minority Business Legal Defense and Education Fund, are urging state and local jurisdictions to strengthen their set-aside programs rather than discarding them. The Fund's president, **ANTHONY ROBINSON**, is concerned that without access to the government contracts such programs provide, many minority firms will simply go out of business. Minority business advocates are also seeking ways to broaden support in the black community for minority business as well as general economic empowerment.

Apartheid's Attempted Face-Lift

In recent months, the South African regime has embarked on a highly visible public relations campaign to preempt the imposition of comprehensive economic sanctions by the international community. Since last year, South African officials have traveled to four African nations—Mozambique, Malawi, Zaire and the Ivory Coast—ending what had been the regime's almost total isolation on the continent. Officials have also

visited Portugal, Switzerland, and the Federal Republic of Germany and have met with Britain's Prime Minister MARGARET THATCHER in Windhoek, Namibia, in an attempt to win diplomatic and economic cooperation.

The regime has cited as "evidence of its lessening aggression" ongoing regional developments, including South Africa's withdrawal of troops from the People's Republic of Angola as well as its agreement to end its illegal occupation of Namibia, which would allow U.N.-sponsored elections leading to independence there (see "The Price of Namibian Independence," *Focus*, March 1989). In addition, South African officials claim to have reduced domestic repression, pointing to the granting of clemency for the Sharpesville Six (the five men and one woman who had been sentenced to hang for their involvement in a demonstration in the black township of Sharpesville during which one local official was killed) and to the release of long-term political detainees, including **ZWELAKHE SISULU,** the founder and editor of the progressive *New Nation* newspaper (Zwelakhe Sisulu is the son of United Democratic Front [UDF] President **ALBERTINA SISULU** and long-imprisoned African National Congress [ANC] leader **WALTER SISULU**). Furthermore, these officials cite the regime's decision to transfer imprisoned ANC leader **NELSON MANDELA** to a minimum-security facility, its banning of the ultra-right "White Liberation Movement," and its denunciation of Conservative Party attempts to reestablish racially segregated public facilities. Additionally, new Nationalist Party leader **F.W. DE KLERK,** who is expected to win the upcoming presidential elections (State President **P.W. BOTHA** will be retiring in August), has hinted that he may seek to dismantle apartheid laws.

Nevertheless, despite Pretoria's efforts to put a new face on apartheid, the situation for black South Africans is actually deteriorating. As the national state of emergency enters its fourth year, the numbers of detentions, bannings, and deaths are still rising. Thirty-two organizations, having a cumulative membership of more than four million, were banned in 1988 alone, including the UDF, the Congress of South African Trade Unions (COSATU), the National Detainees Forum, and a number of teachers' unions. Blacks who lead nonviolent anti-apartheid campaigns are increasingly found guilty by the courts of "terrorism" and "treason." Opposition newspapers have been either completely shut down or severely restricted in the news coverage they provide. And some leaders of the ANC, including Nelson Mandela and Walter Sisulu, still languish in prison after 27 years; other ANC leaders continue to guide the liberation movement from Lusaka, Zambia, their headquarters-in-exile.

Given the growing crisis inside South Africa, both ANC officials and other anti-apartheid activists within the country have denounced the purported government reforms as mere public relations gestures. "The diplomatic initiative is designed to demoralize internal opposition and to relieve the growing siege of the apartheid economy," the ANC observed in a statement released from Lusaka. The *City Press*, a white-owned South African anti-apartheid newspaper, voiced similar views in an editorial, asking: "What is the point of achieving peace with neighbors when your country is in flames?"

Some international observers are also questioning the purpose of South African officials' meetings with African leaders. These observers agree that the primary reason behind Mozambican President JOACHIM CHISSANO'S decision to negotiate with the apartheid regime was to end the war of terrorism and sabotage conducted by South Africa and the South African-backed rebels known as the Mozambique National Resistance (MNR). This war has brought about the death of over 200,000 Mozambicans and has destroyed roads, railways, farms, schools, hospitals, and health centers valued at more than $5 billion, according to the UNICEF report *Children on the Frontline*.

By contrast, the governments of Zaire, Malawi, and the Ivory Coast have maintained ties with Pretoria for years, even as the rest of Africa has sought its isolation. The ANC says of these meetings that "by attempting to forge links with Africa, [the regime] hopes to win the legitimacy and respectability which it is denied by the overwhelming majority of our people....However, those who open up to Pretoria...are postponing the day when [it] will be forced to speak to the real leaders" of South Africa.

The leaders of the Frontline States (Angola, Zimbabwe, Zambia, Mozambique, Lesotho, Tanzania, and Botswana), the black-ruled countries that neighbor South Africa, have expressed similar views. "Apartheid in South Africa will continue to pose a threat to all the people of the region," argued **GAOSITWE K. CHIEPE,** Botswana's foreign minister, at the United Nations. She stated that until South Africa itself is liberated, "the root cause of the problems of southern Africa will still remain unresolved."

In the United States, opponents of apartheid have also rejected the regime's bid for international recognition and are backing new anti-apartheid initiatives in Congress this year. Congressman RONALD DELLUMS (D-Calif.), the newly elected chairman of the Congressional Black Caucus (CBC), introduced a sanctions bill (H.R.21) in the House of Representatives in January. The bill is essentially identical to the one Dellums introduced last year, the Anti-Apartheid Act Amendments of 1988, which the House adopted with bipartisan support (see "House Passes Tougher Sanctions Against South Africa," *Focus TL,* August 1988).

H.R.21 would ban virtually all trade with South Africa except the importation of strategic minerals; require

U.S. corporations, institutions, and private citizens to withdraw all investments from South Africa except those in wholly-owned black businesses; end all U.S. exports to South Africa except farm products, publications, and humanitarian assistance; ban the shipment of oil to South Africa on ships owned, controlled, or registered by American concerns; and prohibit intelligence and military cooperation between the U.S. and South Africa except intelligence relating to Cuban troops in Angola. Dellums' 1988 bill never became law since the companion Senate measure (S.2378), introduced by Sen. **ALAN CRANSTON** (D-Calif.), was never voted on by the full Senate. Dellums' office says that the 1989 version is being delayed until the Senate companion measure (S.507) introduced by Sen. **PAUL SIMON** (D-ILL.) has won the support of Senate Majority Leader **GEORGE MITCHELL** (D-Maine). Groups backing H.R.21 include the CBC, TransAfrica (the Washington, D.C.-based lobbying organization), and the National Rainbow Coalition headed by **JESSE JACKSON.**

Arthur Fletcher to Take Helm of Commission on Civil Rights

ARTHUR FLETCHER, a man with a record of civil rights activism that dates back to the early 1950s, will replace WILLIAM BARCLAY ALLEN as chairman of the U. S. Civil Rights Commission as soon as a vacancy occurs on the commission for Fletcher to fill. Allen, who was appointed by President Ronald Reagan, raised a storm of controversy when he was arrested on February 7 for allegedly kidnapping a 14-year-old Apache girl from an Arizona Indian reservation in the course of intervening personally in the investigation of an adoption case. Fletcher, whose mother was nearly 100 percent American Indian, stated recently, "I don't plan to be going to any Indian reservations." But as he anticipates taking the reins of the commission, which was formed in 1957 to investigate discrimination, Fletcher says he is "pleased to return to toiling in the civil rights vineyards."

Civil rights leaders hope Fletcher's appointment will pull the beleaguered agency out of the mire of recent controversies and that it will restore the public's confidence in it. The commission's previously exemplary record of civil rights monitoring was soiled when President Reagan packed the commission with appointees having little commitment to civil rights. In 1982, **CLARENCE PENDLETON,** a former Urban Leaguer and an outspoken opponent of affirmative action, was appointed chair of the commission: his leadership was adamantly opposed by civil rights advocates throughout his tenure. Pendleton died while holding that office in June 1988. Similar criticism was levelled against the commission's then staff director **LINDA CHAVEZ,** who once proposed that the commission hold hearings on reverse discrimination against white males. She resigned that post in November 1983 and was soundly defeated by Democrat **BARBARA MIKULSKI** in the 1986 race for the U.S. Senate in Maryland. Frustrated with the Civil Rights Commission's domination by these Reagan appointees, black, Hispanic, and women members of the House of Representatives succeeded in having Congress cut its funding in half.

At the moment, Fletcher's nomination is problematic, since there are no vacancies on the eight-member commission for him to fill. Allen, a black Republican whose term expires in 1992, has shown no inclination to resign and commissioners can only be forced out for neglect of duty and malfeasance in office. Since the commission's reauthorization is now under consideration by Congress, the agency's leadership crisis is particularly critical. But according to insiders, the Bush administration is trying to lure away one of the presidentially appointed members from the commission with the offer of a post at another federal agency.

A lifelong Republican who became vice-chair of the Kansas Republican Party in 1954 at the age of 30, Fletcher has had an excellent record of civil rights advocacy. In 1969, President Richard M. Nixon appointed him assistant secretary for employment standards at the U.S. Department of Labor, where he oversaw the formulation of the Revised Philadelphia Plan. This plan for the first time defined discrimination as the absence of blacks in the construction trades and established enforceable standards of affirmative action under Executive Order 11246. The Executive Order requires firms with federal contracts to ensure equal employment opportunity in hiring and promotion through affirmative action. The Revised Philadelphia Plan remains a key precedent in the evolution of national affirmative action enforcement policy.

Fletcher later served as deputy urban affairs advisor to President **GERALD FORD.** After leaving government, he became executive director of the United Negro College Fund and later formed Arthur A. Fletcher & Associates, a consulting firm which maintains food service contracts at military bases and assists corporations in the development of affirmative action programs.

Fletcher believes that the U.S. must eradicate all vestiges of discrimination by the year 2000 if it is to equip coming generations with the skills needed to ensure a fully productive and competitive work force in the next century. "The United States has lost the option of relegating blacks and other minorities to the lowest positions in the labor force," Fletcher says. He has also stated that he wants to return bipartisanship to civil rights policy and to change the perception some may have that the GOP is a haven for racists.

Black Political Empowerment and Economic Advancement

New Study Reveals That Black Businesses Are More Successful in Cities Run by Black Mayors

by Dr. Timothy Bates

This article is based on Dr. Bates' research for a book, which will be published by the Joint Center Press.

The findings are clear. Black political power in City Hall creates an environment in which black businesses flourish. In major cities where black mayors hold office, larger black-owned firms expand, the rate of business failure declines, and more jobs are created for minority workers. These are among the conclusions reached by a recently completed Joint Center study.

While the most common political assumption is that the governance of a black mayor would improve minority access to government procurement, no study has yet documented a *national* pattern supporting this theory. Likewise, although available information on individual cities has shown that college-educated black entrepreneurs are increasingly moving into large-scale enterprises (those with more than $50,000 in annual sales), how this trend is linked to black political leverage has not been established. The Joint Center study is notable, therefore, in confirming for the first time earlier anecdotal accounts linking black political power to these shifts in the growth and nature of black businesses.

The study, which used data from the Census Bureau's "Characteristics of Business Owners Survey" (CBO), analyzed the viability of black-owned businesses operating in 28 metropolitan areas in 1982, comparing 10 cities that had black mayors at the time with 18 that did not (see box for listing). Taking into account regional factors, economic conditions, the education and management experience of business owners, and other forces, the study reveals that black mayors make a significant difference in the strength and viability of black businesses.

The research does not indicate exactly *how* this happens, although it suggests that board and agency appointments by these mayors are a factor. To determine the direct impact on economic advancement caused by black mayors, further research will have to be done at the local level, including individual case studies. Nevertheless, the Joint Center study confirms the fact that political power makes a difference. This is vitally important. When larger-scale black businesses emerge and successfully enter the market for municipal contracts, their gains translate into greater economic stability not only for themselves but for black workers and communities as well.

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The Expanding Base for Black Business

Throughout the 1980s, municipal set-aside and procurement programs targeted large-scale minority businesses in such growth fields as wholesale, construction, finance, and business services, commonly referred to as *emerging* minority industries. Black mayors, often with the assistance of minority-controlled city councils, have used their clout to place proponents of set-aside programs in authoritative positions in agencies and on boards—such as school, sanitation, mass transit, parks and recreation—that control most municipal spending.

The increased migration of college-educated blacks with entrepreneurial interests into cities with black mayors suggests the influence these city administrations have. Case studies show that the opportunity to do business with municipalities has lured highly educated blacks into self-employment, a fact consistent with the CBO survey's finding that the proportion of college-educated entrepreneurs is growing most rapidly in Atlanta, Los Angeles, Detroit, and Washington, D.C., cities where black mayors have been presiding for many years.

Until the recent rise of sophisticated black-owned firms, few black businesses had been in a position to participate in the macroeconomies of major cities. Previously, the typical black-owned business was a mom-and-pop operation—a food store, a beauty parlor, a barbershop. These operations, concentrated in black neighborhoods and serving a local clientele, are generally run by entrepreneurs with little formal business training. Over the past twenty years, this type of enterprise has been in continuous de-

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Cities Included in the Study

Led by Black Mayors, 1982: **Atlanta, Birmingham, Detroit, Gary, Los Angeles, Newark, New Orleans, Oakland, Richmond, Washington, D.C.**

Led by Non-Black Mayors, 1982: **Baltimore, Chicago, Cleveland, Columbus, Dallas, Houston, Indianapolis, Jackson, Jacksonville, Kansas City, Memphis, Milwaukee, Nashville, New York, Omaha, Philadelphia, St. Louis, Shreveport**

Black Political Empowerment

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cline in terms of sales, markets and other indicators of viability. While these types of firms—small-scale retail and personal services—remain the most common field for start-up businesses among black entrepreneurs today, it is a field that suffers very high failure rates irrespective of the presence of a black mayor. Moreover, businesses in this field are by their nature precluded from competing for set-aside municipal contracts; their success is rarely affected by decisions made in the mayor's office. For this reason, the study chose to exclude (and the figures below overlook) businesses in this more traditional minority field.

Black enterprises in emerging industries today, commonly run by entrepreneurs with college degrees, are larger in scale, on average, than firms starting up in the traditional retail and personal services fields. These larger operations do not rely on a minority clientele but sell to units of government and to other businesses, including large corporations. Many minority construction firms, for example, have been formed in response to public-sector opportunities in highway and building construction. Wholesalers and retailers of office supply products and brokers of municipal bonds have also sprung up to meet new demands. Corporate and government programs of minority procurement and set-asides have contributed heavily to the growth of these operations.

Political Power and Black Business Expansion

The positive influence of black mayors is evident in the comparative success of new black firms located in their cities. Increased procurement opportunities there for minority entrepreneurs have led to more minority start-ups of larger-scale firms, the type best able to compete for government contracts.

Sales and employment levels show that minority firms in cities with black mayors are much more successful than those in the 18 other cities and have lower rates of failure. Black owners of these firms are more likely to be college graduates, and they are making much larger capital investments in their firms, both of which improve their chances of success. Table 1 documents the larger size and scope of black business startups (those formed between 1976 and 1982).

The difference between the two sets of cities in the average capital investment made by new owners in the emerging fields is noteworthy—$25,432 for those in the black-mayor group, which is 34.5 percent larger than the average of $18,915 in the other 18 cities. By contrast, older black-owned firms (set up before 1976) operating in the same emerging industries showed average investments that were very similar, $9,989 in the black-mayor cities and $10,670 in the other group. This difference in investment and the differing rates of business failure together serve as strong evidence of the supportive environment for new businesses nurtured by black mayoral management.

Logically, differences in success brought about by aggressive procurement policies should be clearest among the larger businesses, since they are the only ones directly affected by municipal procurement. This can be tested by dividing all black-owned firms into "employers" (firms large enough t have employees) and others (those without any paid employees). What emerges from this comparison only confirms the differences revealed by the more general examination. Employer firms in the black-mayor group reported sales that were 52 percent higher and employee staff size that was 87 percent higher than corresponding firms in the other areas (see table 2). Moreover, their business failure rates were 17 percent lower.

Serious barriers nonetheless exist for black firms in both types of cities, particularly in amassing the capital funds needed to launch large-scale ventures. Findings from earlier studies show that black owners starting firms are likely to have more difficulty raising funds than owners of any other ethnic group.

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Table 1. Traits of Black-Owned Firms Formed Between 1976 and 1982 in Emerging Fields

	Cities led by Black Mayors	*Cities led by Non-black Mayors*
No. employees per firm (1982)	0.8	0.4
Average sales per firm (1982)	$53,793	$35,953
Mean financial capital per firm	25,432	18,915
Percent of firms with paid employees	20.8%	20.1%
Percent of owners having four or more years of college	38.3	33.8
Percent of firms receiving bank loans	17.9	23.0
Percent of firms still operating in 1986	72.9	66.9
Number of firms in sample	*347*	*417*

Table 2. Traits of Black-Owned Firms That Are Employers in Emerging Fields, 1982

	Cities led by Black Mayors	*Cities led by Non-black Mayors*
No. employees per firm	4.3	2.3
Average sales per firm	$160,022	$105,361
Percent of firms relying on a predominantly minority clientele	49.1%	54.8%

Source: U.S. Census Bureau, "Characteristics of Business Owners" Survey, 1986.

Minorities and Privatization: Economic Mobility at Risk

New Joint Center Publication Reveals That Black Municipal Workers Feel the Employment Squeeze as City Governments Privatize Their Services

Privatization, the practice of contracting with private firms to provide public services, has grown rapidly among municipal governments seeking to cut costs or streamline their operations. Yet a detailed study by Robert M. Suggs, associate professor at the Arizona State University College of Law and formerly a senior research associate at the Joint Center, concludes that such schemes may pose a risk to the employment opportunities and general economic advancement of minorities. In the 10 cities Suggs studied, privatization tended to reduce the quality of employment available to low-skilled minority workers as well as the quality of public services available to low-income citizens.

Municipal employee unions have also criticized privatization, pointing out that private firms, unlike municipal agencies, are subject to the economic vagaries of the marketplace, are often inexperienced in providing municipal services, and are several steps removed from the processes of public accountability. However, how privatization affects minority employees, service users, and business owners had not been systematically studied before. *Minorities and Privatization: Economic Mobility at Risk,* soon to be released by the Joint Center, profiles municipal privatization schemes in 10 scattered cities based on research carried out between 1981 and 1983. Each of the cities had a combined black and Hispanic population comprising 20 to 50 percent of its citizenry. The 10 cities are Boston, Newark, Trenton, Fort Lauderdale, Memphis, Jackson (Miss.), Grand Rapids, Houston, Phoenix, and Tucson. Following are selected highlights from the study.

Vulnerable Black City Employees. Blacks working in government may have a special reason to be concerned by privatization. More than other minority populations, blacks often rely on government employment as a route to escaping discrimination in the private job market. In 1980, 27 percent of all employed blacks worked for local, state, or federal government, compared with 16 percent of nonblacks.

The concentration of black employees in low-ranking positions makes them especially vulnerable to layoffs caused by privatization. This was evident in Phoenix, where the municipal job losses resulting from the privatization of a single city program were 88 percent minority, even though the city work force as a whole was only 30 percent minority.

Laid-Off, Low-skilled Workers Lose Pay and Benefits. For a few skilled specialties, such as vehicle maintenance, the range of commercial wages roughly parallels the range of municipal wages, with little evident loss in income, benefits, and career mobility. But for lower-skilled workers, such as those in tree maintenance and trash collection, both wages and benefits at commercial firms are usually inferior to those available in government.

Furthermore, when low-skilled employees are pushed out of public employment, their limited education and background severely restrict their mobility in the private job market, forcing them to accept similar positions at a considerable loss in wages. Municipal trash collectors, who unlike many low-skilled workers can readily find private employment in an industry in great demand, nevertheless were consistently forced to accept lower wages when they left government, and they often lost most of their benefits, including pensions, which has been a severe blow to long-term security. The stability of subsequent employment can suffer as well. In Tucson, Phoenix, and Houston, for example, when tree planting and trimming were municipal agency occupations, they were stable and well-paying. But when contracted to private firms, they became seasonal or part-time positions paying much less.

Suggs' study also shows that minority business owners gain few city contracts resulting from privatization. Their participation accounts for less than two percent of all the dollars spent on the privatization contracts reviewed.

Recommendations. Suggs argues that municipalities engaged in privatization can work to limit these harmful outcomes for minorities by strategic planning. They might choose to privatize only after rigorous cost-benefit comparisons warrant the shift; establish ways to monitor contracted operations closely; make outplacement services available to displaced public employees and give those employees priority in any new municipal hiring; and establish an independent and well-supported program for minority-business procurement, allowing flexibility in seeking minority subcontracts and in setting requirements for small firms. ■

This book review was prepared by Marc DeFrancis, senior editor at the Joint Center.

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Black mayors, the study suggests, have no leverage when it comes to businesses' being redlined by commercial banks. In fact, the evidence shows that a *smaller* percentage of owners in the black-mayor group received bank loans than in the other cities. This problem is partly rooted in the fact that emerging black firms were concentrated in minority neighborhoods, especially in Detroit and Atlanta, two cities where loan access was a severe problem. (The type of redlining that occurs in Atlanta was documented in 1988 in a Pulitzer Prize winning series of articles by the *Atlanta Journal and Constitution.*)

Limited access to capital means that black business startups which might otherwise be competitive in bidding for government procurement are severely handicapped. Access to little or no debt capital in most instances limits owners to creating small businesses, a problem made worse by the fact that such firms suffer the highest failure rates. Furthermore, limited access to debt depresses the overall rate of business formation, particularly in such capital-intensive fields as manufacturing.

Furthering Progress

The development of a healthy small-business community requires three key ingredients: talented and capable entrepreneurs, access to financial capital, and access to markets. The Joint Center study shows that the best progress in black business has been achieved among large-scale firms operating in large cities governed by black mayors. These firms are the ones that are most likely to benefit from preferential procurement and set-aside programs. They are also the firms most likely to be headed by college graduates and to have enjoyed the largest investment of financial capital.

While the study did not allow for a systematic examination of how the mayoral influence is exercised, it does verify that this influence exists regardless of the differences between communities. Further study of this process is necessary, especially in light of the Supreme Court ruling in *Richmond v. Croson,* since the tools at the disposal of black mayors are likely to become fewer in number and these municipal executives will need all the leverage they can muster. ■

JCPS and WETA Document Urban Teen Crisis

The Joint Center for Political Studies and WETA-TV, the Public Broadcasting System (PBS) flagship station in Washington, D.C., are coproducing a documentary entitled, "Turning It Around: Urban Teens in Crisis." The program, hosted and narrated by *McNeil/Lehrer News Hour* reporter Kwame Holman, focuses on four teenagers struggling to overcome the problems common to many young people living in today's urban ghettoes. The documentary follows their stories to gain insight into the problems of drug abuse, violence, homelessness, dropping out of school, and teen pregnancy. It also examines a variety of programs designed to help young people overcome or avoid these problems. The program debuts on WETA-TV at 8:00 p.m. on June 6, 1989, and will be offered to PBS stations nationwide this fall. The Joint Center's involvement in this project was made possible by a grant from the Rockefeller Foundation.

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